



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

THE PLACE WHICH ACCOUNTING SHOULD OCCUPY IN ANY SCHEME OF NATIONAL PREPAREDNESS

By JOHN RAYMOND WILDMAN

New York University

Meaning of Economic Preparedness

Economic preparedness, I conceive to mean, that preparedness which will enable us to survive in a place among the leading nations of the world as a country filled with happy, prosperous people. The need for this preparedness is doubtless brought sharply to our attention by the present war in Europe. But that the matter is purely a war problem seems to me to be questionable.

Nature fitted us to take a foremost place among the nations of the world. Professor John C. Van Dyke, in his book entitled *The Money God*, presents this thought strikingly as follows:

Such a land! The sun never shone upon a fairer, a richer, a more productive one. By virtue of favorable climate and an abundant rainfall it has vast agricultural areas of almost unlimited resources. All kinds of produce may be grown. There are belts that yield cotton, cane, rice, wheat, corn, oats; there are meadows for grass, rye, and barley; uplands for fruits and vines, and wide plains for cattle, horses, and sheep. Out of the mountains come gold, silver, copper, iron; out of the valleys come coal and oil. For more than a hundred years there has been an uninterrupted cutting of the forests, still there is timber; and for a longer time a harrying of the fauna, still there is game. It has been, it is yet, a land of plenty, and all its paths have dropped fatness.

Whether as a nation we have used judiciously and conscientiously the fortune which nature and our forefathers bestowed upon us, seems at times doubtful. From the Phoenicians of Tyre by devious ways we inherited our over-seas commerce. While we were developing our natural resources we wasted, it is claimed, this precious heritage. There are those who accuse us of having been guilty of gross and careless waste in the development of our natural resources. The Forestry Department, for example, tells us that less than 50 per cent of the timber cut down is carried away or used. It is stated by the Department of Agriculture, *Bulletin* 309, that the growth of wood in the United States is being cut down at the rate of thirty-six cubic feet an acre every year, while the natural increase is at the rate of twelve cubic feet an acre. In other words, wood is being used three times as fast as it grows.

As a country, may we go on in this way ignoring our foreign trade

and wasting our natural resources? May we ignore the concentration of wealth and the demands of organized labor? Should we be allowed to forget that the once powerful Roman Empire declined and fell and that France from 1789 to 1795 was torn by revolution? If we could project ourselves into the future five hundred years, what would we read in the world's history concerning the United States of America? Should we not after the manner of Eastern civilization be meditative and from an economic point of view ask, "Whence did we come?" and "Whither are we going?"

We should look upon the present war, in my opinion, as an incident in our economic life rather than the controlling factor which will decide our ultimate economic fate. We must realize that the production of the future must be intensive rather than extensive. If we are to survive the fate which befell the Roman Empire, no matter how different may be the cause, industry must coöperate with the government under the leadership of the latter.

Definition of Accounting

Accounting may well be made an instrument for valuable service in bringing about national industrial organization and direction.

The function of accounting is to present comprehensive information concerning financial status and operations so that the information may be used as a basis for administration. Accounting provides for the analysis, classification, and correlation of financial facts relating to the past, from which may be formulated the policy of the future. As a striking example of this we have the progressive American manufacturer and trader, who is finding out how much of his present handsome profit is due to war business, new South American business, and domestic business, respectively. This information he will use to guide him in planning for the future.

Relation of Accounting to National Preparedness

That we are lacking in national financial facts is generally conceded by those who are in a position to know. The census bureau, notwithstanding the excellent work which has been done therein, is inadequate because of the infrequency with which financial data is collected and issued. Various bureaus of the Department of Commerce are collecting financial information, but each for some specific purpose, and apparently with considerable overlapping of effort, duplication of work, and annoyance to the respondents. There seems to be lack of system and organization in the collection of financial

data. There is no scheme for getting at one time all the financial information which the federal government desires.

There is need for more complete and comprehensive business information of a national character. The seller or buyer of a business which involves good will and who honestly attempts to value good will in a scientific manner is practically unable to do so. There is no place where he may go and ascertain the average return on investment in the field to which the business in question belongs, in order that he may capitalize the excess income in the valuation of the good will.

At the recent hearing of the Newlands Committee on Railroads, Mr. Alfred P. Thom, counsel of the Railway Executives' Advisory Committee, introduced testimony to the effect that the railway income of the country had declined from 7.09 per cent to 3.44 per cent during the period from 1910 to 1915. Whether or not this information was taken from the files of the Interstate Commerce Commission is not known. One thing, however, is certain, namely, that the commission was in a position to furnish such information. The importance of having it before attempting to fix rates is apparent. Yet in how many other industries could the same information be obtained?

One matter which is receiving unusual attention today is that of including in costs interest on owned capital. The most ardent advocate of the principle finds the practice difficult of accomplishment because of the question as to the rate to be used. Theory says, "That rate which represents the average return on capital invested in the line of business involved." Practice, not being able to obtain such figures, is forced to make use of various substitute rates, which are usually far from scientific.

There is no doubt that there is a woeful lack of system in recording, compiling, and correlating financial data on the part of great numbers of business organizations. The Federal Trade Commission some time ago sent to every manufacturer in the country a questionnaire and schedule asking for financial information. Only 30 per cent of the replies were in such a shape that they could be used, to say nothing of those who did not reply.

On the other hand there are many business concerns and institutions which have been greatly benefited by modern accounting. It has been a boon to big business. The trust movement in the United States began in 1898. During the three years which followed one hundred and fifty large combinations involving a capitalization of \$3,500,000,000 were formed. The knowing ones shook their heads and predicted failure. They had not reckoned with modern accounting, which made

it possible for the trust executive to transcend the limits of individual observation and get his visualization from a few eight and one-half by eleven sheets containing financial statements placed before him in the quiet of his luxurious office. When one of the big industrials takes over a new plant or business, the introduction of the holding company's standard accounting system is one of the first things to take place. When the vice-president in charge of production is about to decide whether to operate a certain mill on nothing but woolens or on mixed production, it is a statement produced by the accounting department which enables him to do so.

If accounting has been used to such advantage by the large industrial enterprises and a rapidly increasing number of municipalities, why should it not be made an instrument for service by the federal government? What has been done with the railroads and banks might be done, it seems, with all industries. In order to accomplish this, federal control over accounting would be necessary. There would need to be a government bureau to which every business organization, whether in legal type, sole proprietor, copartner, or corporation, would render financial reports. These reports might most satisfactorily take the form of a balance sheet and an income statement with the respective supporting schedules. Such statements if truthfully and completely made would supply the information from which could be compiled national financial figures of many kinds.

Objection to contributing information of so confidential a nature would be raised by many concerns. The soil pipe manufacturers, for example, might object to publicity regarding the return on investment in their line. If they did they would be old-fashioned. A new era seems to be dawning. Business men want facts. Many of them favor publicity. Just a few days ago the newspaper publishers asked for an investigation into the cost of production of paper and proposed to make the Federal Trade Commission the "middleman" to supervise distribution of print paper at equitable prices. True, the manufacturers represent another phase of the situation, but it is probable that if the matter were submitted to them they would agree that they want a fair return on investment.

In the case of corporations transacting interstate business the Federal Trade Commission already has the power to require such financial statements. With intrastate corporations, which are relatively few in number, this jurisdiction is doubtful. So far as individuals and copartnerships engaged in interstate trade are concerned, there are those who think that the Federal Trade Commission has the necessary

power should it choose to use same. Whether or not the constitution renders individuals and copartners, whether engaged in interstate or intrastate trade, immune from the orders of the commission is questionable. This class would be the most difficult to swing into line, but the proper education of such persons and an appeal to their sense of national interest, namely, the sacrifice of classes to the good of the whole, might accomplish much. I have no desire to be prophetic, but something more elaborate than the report now required of the individual for income tax purposes is, I believe, going to be demanded by the government from the business man, even if the constitution has to be amended in order to get it.

What Federal Control of Accounting Would Accomplish

The advantages of the scheme for federal control over accounting which I have proposed appear to me to be manifold. It would give for the country as a whole the shares of distribution. It would show how the composite business man distributes his composite proceeds to the material and supply man, to the laborer, to the landlord, to the banker, and how much he retains as his share for profit. With this information the federal government would be enabled to legislate intelligently for capital as well as labor; to supervise distribution of commodities if necessary; to make laws for tariff purposes based as far as may be necessary on cost of production in this country; and to adjust equitably the tax on incomes.

The plan would further tend to create uniformity on the part of individual organizations in recording, compiling, and reporting financial data; to furnish accurate and reliable information from which to compile national statistics as to the financial status and operating strength of the various lines of industry, both singly and combined; proper apportionment of the economic forces during and after wars in other countries; effective organization and marshaling of the economic forces for wars in which this country may become involved; facts, not guess-work, as a basis for intelligent federal control and administration of business in the country in times of peace; and closer coöperation between the government and industry with the government leading the way.